

**III.B.1.a**

MEMO TO: City Council

FROM: Lenda Crawford, Finance Director

DATE: May 1, 2007

SUBJECT: **STAFF REPORT: Financial Status Report for the 2005-06 Biennium**

Attached is the biennium report for 2005-06. This report summarizes the financial performance of the major City funds -- General, Enterprise and Capital Improvement Program funds for the period covering **January 1, 2005 through December 31, 2006.**

Staff will be present at the May 1<sup>st</sup> Council meeting to discuss the results of this report. If you have questions prior to that time, please contact me at 425.556.2160.



## SUMMARY

Ending Fund Balance: \$4.3 million; all but \$844,000 anticipated and allocated in the 2007-08 Budget. Recommend transferring the \$844,000 to the capital equipment fund for the replacement of critical city assets. This recommendation is consistent with the City's fiscal policies.

Currently, the replacement of critical city assets is not being properly funded. These include such things as computer hardware and software systems, telephones, radios, printers, copiers, and safety and maintenance equipment. The cash balance in the replacement fund will reach an all-time low (less than \$400,000) by the end of 2008. This is problematic because this fund is used to replace assets valued at over \$10 million on a historical cost basis; replacement costs are significantly higher. To ensure funding is available when required, the City needs to raise the allocation to the Capital Equipment Replacement Fund. It is appropriate to use one-time money for this purpose.

Economic Contingency: \$1.2 million; only \$200,000 of this amount was appropriated in the 2007-08 Budget, leaving \$1 million available for use for other city purposes.

## FINANCIAL OVERVIEW

Although the General Fund ended with a fund balance of \$4.3 million, most of this money represented a one-time event as opposed to increases in ongoing revenue. The fund balance consisted primarily of a one-time windfall from development review fees as the City was able to assess charges one final time based upon a project's value rather than the cost of providing these services. The Council changed the development review fee structure in mid-2006 to reflect an 85% to 90% cost recovery level which means the General Fund will subsidize this function in future years. Given this structural change occurred late in the biennium, it had very little impact upon actual revenues. This was also the case with the increase in the utility tax rate from 5.8% to 6% in mid-2006, its effect on overall revenue was minimal. Sales tax and telephone utility taxes, major revenue sources in the General Fund, continued to under perform. Also, the City lost access to another revenue source, fines and forfeitures, during the biennium when King County started to retain 100% of these fees for District Court services.

On the expenditure side, the City spent virtually all of the budget, saving only \$140,000. Several years of cost cutting have taken its toll on the General Fund. Spending challenges existed during the entire biennium as the City grappled with record high levels of overtime in both Police and Fire and significant increases in legal usage and worker compensation claims.

The City continued to transfer a large amount of general funding to the Capital Improvement Program (CIP). A total of \$16.3 million or 14.2% of general funding was earmarked for projects in 2005-06. At a 14.2% funding level, the City contributed the highest level of general funding to its CIP compared to surrounding jurisdictions.

## REVENUE HIGHLIGHTS

- 3.7% or \$4.2 million over budget
- Major variances:

**Revenues over budget:**

- **Development Review** fees were \$3.6 million over budget driven by strong residential permits, a pick-up in commercial building activity and the City assessing development fees for most of the biennium under the Uniform Building Code (UBC). The UBC's fee structure is based upon the value and size of a project. While total square footage processed increased only slightly during 2005-06, the value of these projects were significantly higher, boosting revenues.

**Development Review Revenues by Category  
2005-06 Budget vs. Actuals**

(\$ in millions)	2005-06 Budget	2005-06 Actuals	Over/(Under) Budget	% over/(under) budget
Fire Code Permit	0.1	0.2	0.1	181.7%
3% Tech Surcharge	0.2	0.3	0.2	84.2%
Commercial Build	0.7	1.2	0.5	65.5%
Plumbing, Electrical, Heating	1.5	2.5	1.0	64.9%
Residential Build	1.4	2.3	0.9	64.6%
Engineering Plan Check Fees	0.5	0.8	0.3	61.2%
Bldg Inspec & Plan Review	0.7	1.1	0.3	44.6%
Tenant Review	0.6	0.9	0.3	43.5%
Planning Fees	0.8	1.0	0.2	21.1%
Multi-Family	0.5	0.3	-0.2	-30.8%
<b>Total</b>	<b>7.0</b>	<b>10.6</b>	<b>3.6</b>	<b>50.7%</b>

*It is important to note that the City changed its fee structure in March and May of 2006 and tied it to the cost of development services rather than the value and size of a project. This policy change will eliminate any future financial windfalls which occurred in good years under the UBC and will require the City to reduce the cost of operations when development slows. In some cases, the General Fund will subsidize development review operations because the new fee structure only targets a 85% to 90% cost recovery level.*

- **Natural Gas and Electric Tax** was \$1.2 million over budget mainly due to Puget Sound Energy rate increases. The mid-2006 increase in the City's utility tax rate from 5.8% to 6.0% added less than \$100,000 in additional revenue.
- **Interest Earnings** \$320,000 over budget – The Federal Reserve increased interest rates 12 times during the biennium raising the return on the City's investment portfolio.
- **Business License** fees, including penalties were \$301,000 over budget due to more taxable employees than assumed in the budget. In total, Redmond recorded 64,866 and 68,433 in taxable employees in 2005 and 2006, respectively.

**Revenues under budget:**

- **Telephone Utility Tax** was \$795,000 or 19% under budget as the market shifted away from land lines and towards cheaper alternatives such as cellular, long distance phone cards, and internet based telephone services.

- **Sales Tax** \$521,000 or 1.4% under budget – After 5 long years, sales tax, the City's largest revenue source, is finally above 2000 levels, albeit by a modest amount. A review of data from surrounding jurisdictions shows Redmond's sales tax growth continues to lag other jurisdictions.

**How Redmond's Sales Tax Compares To Other Jurisdictions**  
(\$ in millions)

Jurisdiction	2000	2006	% change
Issaquah	\$8.0	\$11.3	40%
Kirkland	\$12.4	\$16.3	31%
Bothell	\$9.0	\$10.9	21%
Renton	\$15.7	\$19.0	21%
Unincorporated King County	\$73.7	\$83.5	13%
Bellevue	\$42.1	\$46.5	10%
Seattle	\$123.6	\$133.2	8%
<b>Redmond</b>	<b>\$17.6</b>	<b>\$18.7</b>	<b>6%</b>
Tukwila	\$18.5	\$17.8	-3%

Source: WA State Department of Revenue

- Dampening the growth rate of sales tax revenue over the last six years, was the business services, manufacturing, construction, and wholesale sectors which were down anywhere from 1% to 24%. Retail and telecommunications grew during this period by 29% and 20%, respectively.

**Snapshot of Redmond's Sales Tax Collections (\$ in millions)**  
**2000 vs. 2006**

Classification	2000	2006	% change
Retail	\$6.3	\$8.0	29%
Telecommunications	\$0.9	\$1.1	20%
Services (Finance, Real Estate, Insur., etc.)	\$3.8	\$3.7	-1%
Manufacturing	\$0.5	\$0.5	-3%
Construction	\$3.3	\$3.1	-5%
Wholesale	\$2.9	\$2.2	-24%
<b>Grand Total</b>	<b>\$17.6</b>	<b>\$18.7</b>	<b>6%</b>

Source: Washington State Department of Revenue

- **King County Fire District #34** revenue was \$317,000 under budget mostly due to outstanding labor settlements. FD #34 has been a very good partner paying their bills in a timely manner and infusing \$441,000 in the Fire Department budget in 2006 to cover its share of overtime and the higher cost of operations.
- **Fines and Forfeitures** \$117,000 under budget – Starting in September 2005, King County began retaining 100% of these revenues to pay for District Court services.

## EXPENDITURE HIGHLIGHTS

- The City spent nearly all of the General Fund budget after adjusting for outstanding labor contracts and reappropriations. Savings: \$140,000 or 0.1%.

(\$ in millions)				
Department	2005-06 Budget	2005-06 Actuals	Over/(Under) Budget	% Over/(Under)
Finance	\$11.2	\$10.9	(\$0.3)	-2.9%
Fire	\$25.8	\$26.1	\$0.3	1.2%
HR	\$1.9	\$1.9	(\$0.0)	-1.6%
Legal	\$1.4	\$1.9	\$0.5	34.9%
Legislative	\$0.3	\$0.3	(\$0.0)	-7.7%
Mayor	\$2.4	\$2.4	(\$0.1)	-2.1%
Non-Departmental*	\$14.0	\$14.9	\$0.9	6.3%
Parks	\$8.8	\$8.5	(\$0.3)	-3.7%
Planning	\$9.7	\$9.4	(\$0.3)	-2.8%
Police	\$23.3	\$23.2	(\$0.1)	-0.3%
Public Works	\$15.4	\$14.7	(\$0.7)	-4.7%
<b>Grand Total</b>	<b>\$114.2</b>	<b>\$114.1</b>	<b>(\$0.1)</b>	<b>-0.1%</b>

\* Includes outstanding labor settlements.

**Spending Challenges:**

- **Police Overtime** \$689,000 or 127% over budget – This cost overrun was offset by vacant positions. There is a systemic funding problem in Police overtime which needs to be addressed on an ongoing basis so that the department is not required to hold positions vacant to stay within approved budget limits.
- **Legal Services** \$589,000 over budget – Higher usage drove expenses in all major categories:
  - **Litigation** was \$188,000 over budget due to the Blazing Bagels case. The City spent \$253,000 on this issue during the 2005-06 biennium. The total cost of litigation and settlement due to an unfavorable outcome was \$307,000.
  - **Labor negotiations** were \$180,000 over budget as negotiations occurred with all bargaining units and Police and Fire contracts ended up in arbitration.
  - **General legal** \$221,000 over budget – Higher usage seen citywide.
- **Workers Compensation** – The City had to infuse an additional \$305,531 of General Fund money into this fund to pay for higher work related claims.
- **Fire Department** \$287,000 over budget – The department's costs were higher in all areas, especially overtime. The City and Fire District #34 contributed an additional \$1.3 million on a one-time basis to cover cost overruns and minimize station closures. However, the cost of operating the stations was \$287,000 more than the additional contributions. Fire District #34 will reimburse the City for approximately \$82,000 of these higher expenses.

**GENERAL FUNDING OF CIP**

- In 2005-06, \$16.3 million or approximately 14.2% of general funding was earmarked for capital projects.

**Summary of General Funding Used to Support CIP in 2005-06 (\$ in millions)**

	Amount
5% General Fund Transfer	\$ 4.9
Sales tax on construction	2.2
Lease Savings due to staff consolidation at New City Hall	0.7
Additional contribution for City Hall	0.3
Contribution – City Hall furnishings	0.2
Pavement Management Program	0.6
Business Tax Surcharge	7.4
Total General Funding to CIP	<u>\$ 16.3</u>
% of General Fund 05-06 Budget	14.2%

- Redmond provided the highest level of general funding to its Capital Improvement Program compared to surrounding jurisdictions, contributing on a percentage basis nearly three times more than Bellevue and almost two times more than Kent in 2005.

**Comparison of General Fund Support to CIP  
Redmond vs. Surrounding Cities**

Cities	2005 Levy Rate	Level of General Fund Support	Funding Sources
Kirkland	\$1.49	1.6%	Sales tax
Everett	3.60	0%	No dedicated sources
Renton	3.23	0%	No dedicated sources
Kent	2.93	8.5%	Sales tax
Bellevue	1.23	5.6%	5.6% of General Fund after adjusting for 50% of sales tax which is returned to the General Fund for m&o (sources: sales and b&o taxes)
Redmond	1.59*	14.2%	See above chart

\* Note: Redmond's 2006 levy rate declined to \$1.23 due to the retirement of 1992 general obligation bonds for the Public Safety Building, Senior Center and three street projects.



## SUMMARY

Ending Fund Balance:	<u>\$13.3 million</u>
Operations:	\$5.2 million
Capital Improvement Program:	\$8.1 million

## OPERATING POSITION OF THE UTILITY

- The Utility's operating position declined significantly during the biennium. Operating income fell significantly by \$1.7 million or 87% during the biennium.

### Water/Wastewater Operating Income Comparison

2003-2004	2005-2006	Difference	% change
\$1,943,109	\$251,774	(\$1,691,335)	-87%

### Major factors:

- Higher purchased water costs** as a result of the City purchasing water from Cascade Water Alliance vs. the City of Seattle. The City spent \$2.1 million more in the 2005-06 biennium on purchased water compared to 2003-04. Purchased water is not based on current consumption but on a three-year moving average of historical water usage and an entity's demand share of the system under the CWA contract. So in any given year, the amount the City pays in water costs is not directly correlated with annual consumption.
- Water Consumption** declined 5% overall. All customer classes were down with the exception of commercial, which was up only 1%. As a result of the lower water consumption both water and sewer rate revenues were relatively flat during the biennium, despite a 2% increase in rates.

### In-City Utility Water Sales by Customer Classification 2003-2004 vs. 2005-2006

Customer Class	2003-2004	2005-2006	% Change
Irrigation	119.10	103.82	-13%
Multifamily	132.63	127.49	-4%
Commercial	168.02	169.04	1%
Residential	192.58	182.76	-5%
<b>Total</b>	<b>612.33</b>	<b>583.11</b>	<b>-5%</b>

Source: Redmond Utility Billing; millions of cubic feet of water sold

- Increase in Excise Tax** as a result of more taxable capital contributions in 2005-06 and elimination of the effects of a one-time refund received in 2003-04 for sewer collection/transmission. This expense increased \$202,000 over the biennium.
- To stabilize the position of the utility, maintain operations and support capital needs, the Council increased rates in the 2007-08 biennium.

### BUDGET TO ACTUAL RESULTS

- The budget represented a good operating and capital plan for the utility during the biennium. Operating revenues, expenditures and the capital improvement program were all within approved budget levels.
  - **Operating Revenues** were on target although there were major variances within the categories. The primary sources of revenue, water and sewer rate revenues, were under budget by \$1.2 million due to a 5% decline in water consumption. This was offset by higher CWA charges, investment interest, and water meter installations.
  - **Operating Expenditures** were 2% or \$921,000 under budget, primarily due to vacant positions and savings in professional services, legal, communications, and travel.
  - **Capital Improvement Program** spent 77% or \$15.4 million of its budget, which is considered a very high execution level.
    - Most of the expenses were due to the rehabilitation of the City's wells #1-4 (\$4.1 million) and the reconstruction of well #5 (\$4.7 million).
    - Other major work occurred on the following projects:
      - SE Redmond Transmission (\$3.3 million)
      - Water Quality Improvement (\$2.4 million)
      - NE 24<sup>th</sup> Sewer Trunk (\$2.0 million)
      - S. Overlake Trunk Improvement Phase II & III (\$2.0 million)
      - Meter and PRV Replacements (\$805,000)
      - Water System Improvement (\$630,000)





## SUMMARY

Ending Fund Balance:	<u>\$5.1 million</u>
Operations:	\$703,000
Capital Improvement Program:	\$4.4 million

## OPERATING POSITION OF THE UTILITY

- This Utility continued to struggle. In 2005-06 operating income declined by \$503,000 or 886%.

### Urban Planned Development Operating Income Comparison

2003-2004	2005-2006	Difference	% change
\$56,780	(\$446,248)	(\$503,028)	-886%

### Major factors:

- Rate revenue and the depreciation surcharge are not generating enough money to pay for the higher operating costs including depreciation. Operating revenues excluding Metro charges were up \$1.1 million or 23% in 2005-06 compared to the previous biennium. However, expenses rose \$1.4 million or 31%. Higher Metro charges, which represent a pass through to UPD customers, were offset for Metro revenues.
- Water consumption in the UPD grew significantly for the residential and commercial customer classes due to an increase in single family home occupancies and the opening of two retail parks. However, this activity was offset by the decline in irrigation water consumption due primarily to the Trilogy golf course not using as much water now that it is established. Overall, water consumption grew by 28%.

### UPD Utility Water Sales by Customer Classification 2003-2004 vs. 2005-2006

Customer Class	2003-2004	2005-2006	% Change
Commercial	1.15	2.42	110%
Residential	16.94	28.62	69%
Irrigation	15.89	12.83	-19%
Multifamily	2.97	3.34	12%
<b>Total</b>	<b>36.95</b>	<b>47.22</b>	<b>28%</b>

Source: Redmond Utility Billing; millions of cubic feet of water sold

- The City spent \$1.0 million more in the 2005-06 biennium on purchased water compared to 2003-04. Purchased water is not based on current consumption but on a three-year moving average of historical water usage and an entity's demand share of the system under the CWA contract. So in any given year, the amount the City pays in water costs is not directly correlated with annual consumption.

- Other cost increases included depreciation, maintenance and operations and general and administrative services.
- The Council increased rates and the depreciation surcharge to cover the cost of operations and depreciation for the 2007-08 biennium.

### BUDGET TO ACTUAL RESULTS

- Operating revenues, expenditures and the capital improvement program were all within approved budget levels. Revenues underperformed but were offset by expenditure savings.
  - **Operating Revenues** were 21% or \$2.0 million under budget, primarily due to weak collections in water, sewer, and metro sales and water meter installations. These under collections were partially offset by higher CWA charges and investment interest.
  - **Operating Expenditures** were 13% or \$1.2 under budget, primarily due to vacant positions and savings in supplies, professional services, legal, and repairs and maintenance.
  - **Capital Improvement Program** spent 2% or \$117,000 of its budget for the electronic security system, the UPD's only project for the biennium.



## SUMMARY

Ending Fund Balance:	<u>\$8.7 million</u>
Operations:	\$450,000
Capital Improvement Program:	\$8.3 million

## OPERATING POSITION OF THE UTILITY

- This Utility's operating position also declined. Income from operations fell \$714,000 or 18%.

Stormwater Operating Income Comparison			
2003-2004	2005-2006	Difference	% change
\$4,063,649	\$3,349,477	(\$714,172)	-18%

### Major factors:

- Operating Expenses increased by \$1.2 million while revenues rose by only \$500,000. Expenses were higher due to ongoing maintenance and monitoring of capital projects, initiation of the Illicit Discharge Program, re-distributing staffing between operations and capital and charging more of the Public Works managers' time to this Utility in accordance with cost accounting.
- To maintain operations and address stormwater capital needs, the Council increased rates in the 2007-08 biennium.

## BUDGET TO ACTUAL RESULTS

- **Operating Revenues** were up modestly primarily due to an increase in residential and commercial development and back billing of uncollected 2004 stormwater fees for residential and multifamily customers. In addition, the City collected a \$122,000 one-time payment from King County to pay for the maintenance and potential reconstruction of the drainage facilities along West Lake Sammamish Parkway. This was a result of the dissolution of the Flood Control District which provided drainage services in Redmond along West Lake Sammamish Parkway.

Rates during the biennium remained constant at \$11.50 and were structured to sustain current service levels and allow for the Utility to be partially compliant with environmental regulations. An additional \$700,000 was transferred to the Capital Improvement Program in 2006 on a one-time basis as a result of the Council lowering the Utility's operating reserve requirement from 12% to 5% of expenses.

- **Operating Expenses** were also higher than planned, however were within budgeted levels. Expenses were driven by increases in ongoing maintenance and monitoring of capital projects, the Illicit Discharge program, and refining cost accounting within the Public Works department.

- **The Capital Improvement Program** spent 58% or \$7.3 million of its budget.
  - The utility was under budget due to the delay of the following projects:
    - **Eastside Industrial Basin** was \$1.6 million under budget due to property issues associated with a potential 3<sup>rd</sup> party purchase.
    - **NE 85<sup>th</sup> Street Water Quality** \$1.3 million under budget because of shifting priorities and opportunities associated with coordinating another downtown project with a private development.
    - **Bear Creek Rehabilitation** \$370,000 under budget also due to property issues and coordination issues with the WA Department of Transportation.
  - Significant completed CIP projects include:
    - NE 116<sup>th</sup> Culvert Road Replacement (\$2.0 million)
    - Idylwood Stream Upper Reach (\$1.0 million)
    - Old Redmond Road Widening (\$700,000)
    - Willows Stream Daylighting (\$692,000)
    - 2005 Street Resurfacing (\$385,000)



## SUMMARY

Ending Fund Balance: \$49.2 million

## OVERVIEW

The General Capital Improvement Program continued to do well financially in 2005-06. Revenues exceeded the budget by \$8.7 million driven primarily by stronger real estate excise taxes. Collections totaled \$12.8 million and were nearly double the amount received (\$6.8) in the prior biennium. The City contributed \$16.3 million of general funding to the CIP in 2005-06.

Spending levels in the General CIP remained fairly consistent with the previous biennium. The City expended \$63.2 million or 59% of the \$106.5 million budget. This compares to an expenditure rate of 58% in 2003-04. The largest expenses occurred in Transportation, Parks and General Government. During the biennium, the City reached a major milestone as the new City Hall was completed and employees from several different locations moved into the new facility in December 2005.

## REVENUE HIGHLIGHTS

- \$8.7 million or 15.1% over budget (excludes beginning fund balance).
- Major variances:

### Revenues over budget:

- **Real estate excise taxes** were \$7.4 million over budget due primarily to higher real estate values, transaction volumes, and a few large commercial transactions.
- The **business tax surcharge** exceeded the budget by \$400,000 due to more taxable employees in Redmond than what was assumed in the 2005-06 Budget. In total, 64,866 employees were reported in 2005 and 68,433 in 2006. The surcharge supports transportation improvements and demand management projects. This portion of the license fee was scheduled to sunset at the end of 2006. However, the Council reinstated the surcharge on a permanent basis effective January 1, 2007.
- **Interest earnings** were \$1.3 million over budget due to higher cash balances in the CIP and increases in interest rates as the Federal Reserve raised rates 12 consecutive times during the biennium. Cash on hand at the end of 2006 was \$51.3 million compared to \$45.7 million at the end of 2004.
- **Private contributions** exceeded budget by \$400,000 or 10%. Large contributions were received for the 185<sup>th</sup> St. Extension project, East Lake Sammamish Pkwy at 65<sup>th</sup> and York Bridge.

### Revenues under budget:

- The **beginning fund balance** was \$2.8 million below budget primarily due to projects proceeding at a faster pace than what was assumed when the 2005-06 Budget was developed. This is a timing issue and not a cause for concern.

- **Impact fees** came in approximately \$500,000 under budget. This revenue varies widely as the City recognizes impact fees only when an eligible capital project is completed. In 2005-06, Parks used impact fee revenue for the Southeast Neighborhood Park and Bear Creek/Avondale trail. Transportation projects included BROTS, Redmond Way/Highway 202, Neighborhood Traffic Calming, bike facility improvements and NE 83<sup>rd</sup> Street improvements. There were no fire related projects completed during the biennium where impact fee money was used.

### EXPENDITURE HIGHLIGHTS

- \$27.7 million or 30% below budget.
- **Transportation** spent \$33.5 million or 69% of its budget for the biennium. Major project expenditures included: Bear Creek Parkway Extension, RITS Phases I and II, NE 116<sup>th</sup> culvert, Union Hill Phase I Road widening, pavement management/resurfacing, and NE 29<sup>th</sup> PI Extension.

Transportation was under budget by \$15.0 million due to: 1) \$6.6 million being allocated in July 2006 for BTTI (Business Tax Transportation Improvement) projects of which only \$334,000 was spent by the end of the biennium; 2) the MOC building acquisition project which will not be completed until 2007; 3) the York Bridge project which was reimbursed at a higher level by King County than anticipated, thus reducing the overall cost to the City; 4) a delay in receiving the billings from the Washington State Department of Transportation for work on the Redmond Way/SR202 additional lanes project; and 5) the Redmond Way Access Control project being under budget as a result of more work being done in the previous biennium than anticipated which affected workload and spending patterns in 2005-06.

- **Parks** expended \$8.2 million or 66% of its budget. The variance from budget was primarily due to a delay in the design work for Grasslawn Park and the timing of expenses between the current and previous biennium for the Bear Evans Creek Phase I project. The City spent more money on the Bear Creek project in 2003-04 than anticipated which affected expenditure levels in 2005-06.

Major project expenditures included: loan repayments for Perrigo and Grasslawn parks, Hartman Park improvements, Bear Evans Creek Phase I and Bear Creek Trail Development.

- **General Government** consumed \$6.1 million or 57% of its budget allocation. Most of the money (\$5.4 million) was spent on project management, furnishings and lease payments for City Hall. The City moved into the new facility in December 2005. In addition, \$400,000 was spent for affordable housing projects and \$138,000 was transferred to the Transportation CIP to reimburse the fund for impact fee waivers for the Village at the Overlake Station.

Projects under budget included: 1) Records Management due to uncertainty surrounding the ongoing funding of this program and 2) Community/Historical Treasures as a result of no eligible projects being identified in 2005-06.

- **Fire** spent \$300,000 more than planned in 2005-06 due to major repairs at Station 16 to fix a leaking roof and replace failed siding. The total cost of this project was \$1 million. The remaining expenditures for this functional area included scheduled transfers to the Park CIP, transfers to the Fire Equipment Replacement Fund and purchase of mobile data terminals.
- **Police** spent \$1.1 million of its 2005-06 Budget. Major expenditures were for criminal justice integration, remodel of the evidence area, homeland security projects and mobile data terminals. Expenses were lower than expected in many of these areas as projects did not proceed as fast as planned.



## SUMMARY

- The City's investment portfolio continued to meet the primary objectives of the investment policy:
  - Safety of principal,
  - Liquidity of funds, and
  - Attaining a market rate of return given risk constraints and diversification guidelines.
- Market conditions improved significantly over the last two years as the Federal Reserve raised rates 12 times in an effort to curb inflation. The Federal Funds target rate increased from a level of 2.25% in December 2004 to the current rate of 5.25%.
- The continued increases in yields also resulted in the City's return rising from 2.37% at the end of 2004 to 5.00% at the end of 2006.
- Overall, the investment portfolio grew 9% from \$102.6 million to \$111.8 million during the biennium, reflecting the growth in cash on hand primarily in the General Capital Improvement program and higher interest rates.
- The table below provides a snapshot of the City's portfolio and yield to maturity at December 31, 2004 and December 31, 2006.

(\$ in millions)

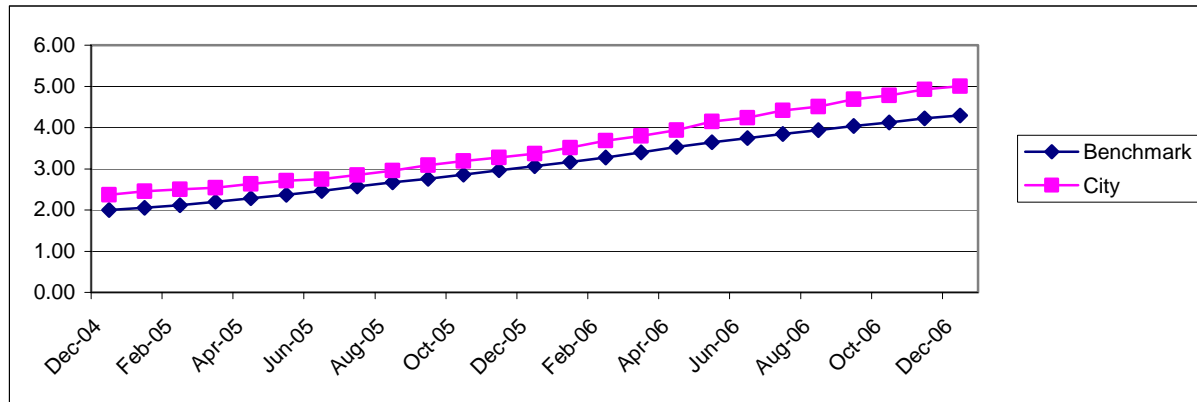
Investment Type	Portfolio as of 12/31/04	Portfolio as of 12/31/06	Yield To Maturity 12/31/04	Yield To Maturity 12/31/06
State Investment Pool	\$ 6.3	\$ 9.6	2.10%	5.29%
Certificates of Deposit	34.0	33.2	2.16%	5.24%
Federal Agency Issues	55.6	65.9	2.54%	4.84%
Federal Agency Discount Issues	5.0	.9	2.36%	5.25%
Treasury Securities	0	2.0	N/A	5.01%
Money Market Fund	1.7	.2	N/A	N/A
	<b>\$102.6</b>	<b>\$111.8</b>	<b>2.37%</b>	<b>5.00%</b>

## Portfolio Performance vs. Benchmark

- The City currently benchmarks its portfolio to the 2-year average of the 2-year Treasury Note.
- From December 2004 through December 2006 the City was able to outperform its benchmark, earning an average interest rate of 3.53% versus the benchmark average of 3.00%.

- The following chart compares the City's rate of return to the benchmark.

**Portfolio Benchmark Comparison  
December 2004 – December 2006**



## Cash Balances by Fund Type

- Below is a comparison of cash balances at year-end 2004 versus year-end 2006. As you can see, most (\$80.4 million or 70%) of the City's cash resided in the General CIP and Utilities at the end of the biennium. These funds had \$4.0 million and \$3.4 million of bills outstanding, respectively as of the end of 2006. In comparison, the General Fund's cash balance was \$9 million with \$5.5 million of accounts and wages payable at year end.

As of December 31st (\$ in millions)		
Category	2004	2006
<b>General Capital Projects</b>	<b>\$ 45.7</b>	<b>\$ 51.3</b>
Utility Operations & CIP		
Water/Wastewater	17.8	14.7
Stormwater	9.8	9.0
UPD	<u>4.3</u>	<u>5.4</u>
<b>Subtotal Utility Operations &amp; CIP</b>	<b>31.9</b>	<b>29.1</b>
<b>Reserves: General Operations</b>	<b>4.1</b>	<b>5.1</b>
<b>Reserves: Equipment Replacement</b>	<b>8.0</b>	<b>8.7</b>
<b>Special Revenues</b>	<b>4.3</b>	<b>4.7</b>
<b>General Fund</b>	<b>5.9</b>	<b>9.0</b>
<b>Internal Service</b>	<b>2.8</b>	<b>4.1</b>
<b>Debt Service</b>	<b>1.4</b>	<b>1.8</b>
<b>Trust &amp; Agency</b>	<b>0.4</b>	<b>0.6</b>
<b>Total</b>	<b>\$ 104.5</b>	<b>\$ 114.4</b>